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Enclosed please find one original and 13 copies as required to file these comments for Docket G04204A-03-0634, review of the Transportation tariff T-1 for Unisource Energy Services.

I have also included an extra copy and a self-addressed stamped envelope, taped to this note for confirmation of receipt.

Thank you for processing these comments into this docket.

If there are any problems with this or you need to contact me, please do so at the following contact points.

Thomas Broderick 928-527-8036 tbbflag@uneedspeed.net

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Comments of the Northern Arizona Transporters Group
Docket G04204A-03-0634
October 27, 2003

These comments are filed on behalf of the Northern Arizona Transporters Group (NATG), a group of Northern Arizona gas transportation customers of Unisource Energy Services (UES) in the matter of the revised transportation tariff T-1 (Docket G04204A-03-0634). Currently, NATG includes 12 transportation customers of UES, including 5 large customers using 100,000 to 400,000 dt per year. The annual transportation margin paid by the group to UES is about $1.5 million. In both the number of customers and the load represented, this group probably represents well over 50% of transportation customers, excluding the Griffith power plant. There are manufacturers, hospitals, government, and commercial customers in the group. They also represent significant employers in their communities, exceeding 3000 employees overall.

NATG has serious concerns relative to balancing penalties and questions on operational requirements, Section 6.2, contained in the transportation tariff filed in September, 2003. Before addressing those concerns, we would like to indicate that our position is based on a few important principles:

1. Transporters are responsible for the cost of the gas they use. Those with imbalances should NOT be subsidized by either the local distribution company (LDC) or by system supply customers. When gas is supplied to make up a negative excess imbalance, the customer should be responsible for the cost of that gas.

2. Balancing provisions should prevent to a reasonable extent the ability for sophisticated customers or their suppliers to gain financial advantage at the expense of either the LDC or other customers.

3. Transporters should not be permitted to chronically be out of balance, either through neglect or deliberate, intentional action. Significant penalties should be reserved for these situations if the scale of the imbalance is significant.

4. Communication requirements for both the customer and LDC on usage could significantly mitigate some negative impacts of imbalances.

5. The change in the El Paso contract with the LDC from full requirements to contract demand (CD) does mean that balancing requirements on customers are more important than historically.

Balancing Penalties

1. **The balancing requirements are significantly more severe than those on the El Paso pipeline, with respect to window, timing, and size of penalty. Penalties structured in a similar way to those under El Paso would be acceptable, since they allow at least 45 days to correct an end-of-the month imbalance and scale the penalty based on extent of imbalance. Customer would still make whole the LDC and/or system supply for gas supplied to cover the imbalance for that month.**

1. **Daily balancing penalties should be eliminated. Penalties in El Paso's tariff do not appear in <u>Sections 19.12 or 20.11, Resolution of Imbalances</u>. To accommodate the interest of the LDC in daily usage of the very largest customers whose usage varies considerably beyond weather-based usage, a requirement for communication of planned usage schedules and immediate notification of unplanned usage could be included in the tariff. For some such users, this communication is already part of current practice. Since the LDC requires telemetering on all customers' meters (at the customers' expense), the LDC is then able to follow usage in whatever detail it determines necessary for system operation.**

2. **The pricing base for imbalances should be the incremental cost that the LDC incurs to supply the combined imbalances of the transporter group. While this incremental price may indeed be the highest price gas, the price charged should NOT necessarily be the highest price or the highest cost block of gas necessary to cover imbalances or be tied to system supply cost of gas. This approach keeps system supply customers and the LDC whole, since this charges imbalance gas at the actual cost of the unexpected extra gas needed for that month.**

   Since the "swing" gas purchased both at the LDC and by a transporter is likely El Paso Permian first of the month (or something very similar), administrative accounting effort by LDC gas supply departments, by Commission staff and customers could be minimized by using this index adjusted for fuel and maximum El Paso transportation (or some other index at some future time if ordered by the Commission). This again is the approach used by El Paso in its tariff (in Section 20.11 e). This would keep everyone whole, keep this balancing process simpler, provide transparency to all parties (since this index is published monthly and does not result from internal accounting calculations), and provides advance knowledge of the price to be used for imbalances.

3. **Since new balancing requirements are appropriate, customers, if they request, should have access to the daily usage data from the telemetry system in order to properly manage their balancing. This is particularly true since they have had to pay for equipment to provide this data. This could take the form of providing access to the data at the telemetry or having the LDC provide the daily usage information daily, depending on the capability of the requesting customer.**

4. **Company approved imbalance adjustments must be provided in a non-discriminatory way for a given month for all transport customers with imbalances beyond the allowed window.**

5. **Balancing penalties should explicitly in the tariff be credited to the gas bank.**

Operating Procedures (Section 6.1)

1. **There is reference to GISB guidelines for nominating, confirming, and scheduling gas. There is also reference to submitting nominations to the LDC, ahead of the pipeline's nomination deadline, which appears to be daily. These two processes have generally only been done monthly and intra-month communications have only been needed if there was a significant deviation in usage or nomination confirmations.**

   These requirements have not really been enforced either historically or with the new El Paso CD contract or under the new LDC. Does this language describe what is really needed? If so, then GISB renamed NAESB now) standards should be provided to each transporter by the LDC, with updates as the changes are made by FERC, if the LDC wants the transporters to follow these procedures. If not, then the language should be revised to describe accurately the desired procedure.

It is the hope and intention of this customer group who makes up a significant portion of the transportation load on the UES system that we can work with UES, Southwest Gas and the Commission Staff to incorporate the reasonable features discussed above. They will assure that: 1) transportation customers do not have either the opportunity or incentive to use imbalances for financial gain at the expense of either the LDC or other customers, 2) they do have the penalty incentives to manage their imbalances to a minimum, and 3) there will not be excessive penalties out of proportion to their impact on the system that drain money and management resources from the businesses served under this tariff.

In contact so far with UES, Staff, and Southwest Gas, the principal objectives are reported to be that customers be encouraged by penalties to better manage their imbalances, that transporters not impact gas supply costs for other customers, and that this issue be resolved in time for the early December open meeting. This group supports the first two objectives as well and every point described here supports them, as well as providing fairness and consistency for the transport customer group.

With respect to timing, in contact with UES regulatory management last week on October 20 and 23, regarding some of the substantive concerns described here, this group assured them that we would be available all day, every day to work out mutually satisfactory final tariff language over the next two weeks in order to meet the deadlines for the December open meeting. While those discussions have not yet begun, we look forward to working with UES to incorporate these comments into the tariff language.

Northern Arizona Transporter Group contact:

Thomas Broderick 928-527-8036 tbbflag@uneedspeed.net

Discussion of Summary Points

Balancing Penalties

1. The balancing requirements are significantly more severe than those on the El Paso pipeline, with respect to window, timing, and size of penalty. Penalties structured in a similar way to those under El Paso would be acceptable, since they allow at least 45 days to correct an end-of-the month imbalance and scale the penalty based on extent of imbalance. Customer would still make whole the LDC and/or system supply for gas supplied to cover the imbalance for that month.

Exhibit 1. shows Section 20.11 Resolution of Imbalances from the El Paso Pipeline tariff posted on its website (elpaso.com). (Section 19.12 is essentially the same applying to IT service). The features of the balancing requirements are that:

1. At 5% or more cumulative monthly imbalance, the customer is provided a notice.

2. Penalties (called cash out by El Paso) do not begin until and if the imbalance gets to 10% AND customer has been provided two consecutive monthly notices AND it is a minimum of 45 days since the first notice.

3. The penalty is scaled with the size of any imbalance at the 45 day point after the initial notice as the following % of Index Price for when the customer under-delivers gas (so needs to buy gas from the LDC) and when the customer over-delivers gas (so needs to sell gas to the LDC):

	Under-deliver (Buying gas)	Over-deliver (Selling gas)
• 0 -5% portion of imbalance:	100%	100%
• 5-10% portion of imbalance:	110%	90%
• 10-15% portion of imbalance:	120%	80%
• 15-20% portion of imbalance:	130%	70%
• over 20% portion of imbalance:	140%	60%

NATG acknowledges, as noted above, that balancing is now more important for the LDC with the new El Paso contract. However, if the LDC tariff requirements mirror those of El Paso, this is a very conservative position for the LDC due to the diversity of the imbalances of customers. Specifically, some customers will over-deliver and some will under-deliver in a month. So the net imbalance for the LDC is in general less, usually considerably so, than the sum of the imbalances of individual customers without regard to their direction.

For example, if 5 customers are 10% overdelivered and 5 customers are 10% underdelivered, then the LDC has NO imbalance position with El Paso. Even if the existing El Paso language is incorporated into the LDC tariff, all 10 of these customers are liable for penalties (if left uncorrected for 45 days), when the LDC has NO liability at all.

Only in the case where all customers with an imbalance ALL have their imbalances in the same direction does the imbalance of these customers translate into the imbalance seen by the LDC. This situation is possible, but is likely to be the case a fraction of the time. But even in this unusual case, then having the LDC tariff mirror the El Paso tariff provides assurance that the LDC and system supply customers are protected from any costs caused by transport imbalances.

There is another reason that the LDC and the bank are protected from having to absorb costs. The LDC also brings in gas for system supply customers which is generally multiple times the gas needed for transporters each month. If you speculate that system supply is twice as much as transporter volume, then a 10% imbalance among transporters, all either under or over, translates into a 5% imbalance for the LDC. If system supply is 5 times the transporter volume, then a 10% imbalance among transporters, all either under or over, translates into a 2% imbalance for the LDC. Again, if the El Paso tariff language is adopted for the LDC tariff, these customers will be liable for balancing penalties to the LDC, when the LDC is NOT liable to El Paso.

For the reasons described here, using the El Paso tariff language for the LDC transportation tariff is a VERY CONSERVATIVE approach to protecting the LDC and system supply from balancing penalties from El Paso. Based on these observations, it could readily be argued that the El Paso tariff is excessive to be applied to transport customers. However, NTAG is willing to accept the El Paso language. It is not willing to accept the considerably stricter LDC language that was filed (or even the modified version to scale penalties based on size of imbalance). The notice requirement by the LDC and the 45 day minimum period to correct imbalances both need to be included in the LDC language.

2. Daily balancing penalties should be eliminated. Penalties in El Paso's tariff do not appear in <u>Sections 19.12 or 20.11, Resolution of Imbalances</u>. To accommodate the interest of the LDC in daily usage of the very largest customers whose usage varies considerably beyond weather-based usage, a requirement for communication of planned usage schedules and immediate notification of unplanned usage could be included in the tariff. For some such users, this communication is already part of current practice. Since the LDC requires telemetering on all customers' meters (at the customers' expense), the LDC is then able to follow usage in whatever detail it determines necessary for system operation.

At least 3 customers can suddenly, without advance notice, need to start to use gas to maintain their process, which is also fired with coal. It would be very difficult for them to meet any kind of daily balancing requirement under these circumstances. Other customers can have their usage increase or decrease dramatically with dramatic changes in weather, which can not always be predicted. Since there are no daily balancing requirements on El Paso, it is unclear where the source of any costs might be incurred for daily swings in volumes. With a limited communication requirement for the largest customers whose usage is unpredictable combined with the required telemetering, the information needed to manage the system should be available.

Transport customers have limitations on the maximum daily quantity of gas that they can take that has been agreed to by both parties. So presumably the impact on the LDC system has already been evaluated to confirm that generally the capacity is available. In the event of a system emergency, there is very broad language in the tariff allowing the LDC to limit usage. Therefore, daily balancing is not a necessary feature for routine management of the system.

3. The pricing base for imbalances should be the incremental cost that the LDC incurs to supply the combined imbalances of the transporter group. While this incremental price may indeed be the highest price gas, the price charged should NOT necessarily be the highest price or the highest cost block of gas necessary to cover imbalances or be tied to system supply cost of gas. This approach keeps system supply customers and the LDC whole, since this charges imbalance gas at the actual cost of the unexpected extra gas needed for that month.

Since the "swing" gas purchased both at the LDC and by a transporter is likely El Paso Permian first of the month (or something very similar), administrative accounting effort by LDC gas supply departments, by Commission staff and customers could be minimized by using this index, adjusted for fuel and maximum El Paso transportation (or some other index at some future time if ordered by the Commission). This again is the approach used by El Paso in its tariff (in Section 20.11 e). This would keep everyone whole, keep this balancing process simpler, provide transparency to all parties (since this index is published monthly and does not result from internal accounting calculations), and provides advance knowledge of the price to be used for imbalances.

The tariff filing bases the price for imbalances on the highest price or a system supply price. If the physical process for satisfying imbalances is considered, when a transporter under-delivers gas, then the LDC will have to take extra gas that month that it did not plan for. So the cost of that extra gas is what should be the basis for any imbalance penalties.

The problem with using the highest cost gas is illustrated by the following example. Suppose the LDC pre-purchased gas months ahead for system supply at $5/dt. By the time the month of the imbalance arrived, gas purchased for that month had fallen to $4/dt. The cost of the extra gas for that month that had to be used for covering imbalances is $4, not the $5/dt gas that was purchased months before for system supply.

If the incremental cost of gas for the month of the imbalance was $8/dt, then that should be the price used and that would be the highest price paid for that month.

The system cost of gas is made up of a number of purchases that were made for system supply. Those purchases were really unrelated to the purchases made to cover imbalances and so are not relevant to the imbalance costs, other than to make sure system supply prices are not adversely affected by imbalances. The use of the cost of incremental gas accomplishes that goal, as well as fairly charging transporters for the gas they needed in a particular month.

The use of a suitable index, adjusted for fuel and transportation to the citygate will very closely approximate the incremental cost of gas for an LDC and enormously simplifies the effort by the LDC, ACC and customer in developing or reviewing the pricing. A substantially more elaborate calculation very likely produces minimal, if any, additional protection of either the LDC or system supply pricing.

4. Since new balancing requirements are appropriate, customers, if they request, should have access to the daily usage data from the telemetry system in order to properly manage their balancing. This is particularly true since they have had to pay for equipment to provide this data. This could take the form of providing access to the data at the telemetry or having the LDC provide the daily usage information daily, depending on the capability of the requesting customer.

No additional discussion.

5. Company approved imbalance adjustments must be provided in a non-discriminatory way for a given month for all transport customers with imbalances beyond the allowed window.

In the current tariff filing, the LDC is given the authority to make "adjustments" to the imbalance window for both daily and monthly imbalances. While it is a well-established regulatory principle that utilities must treat all similarly situated customers equally, there is no provision guiding how customers receive imbalance adjustments from the LDC. For example, one customer with an imbalance outside the 5% window could receive an adjustment, while another might not.

Language should be added to say that if there is an adjustment made in a month, all transport customers with an imbalance beyond the 5% window should receive the same adjustment in percentage terms. For example, if 4 customers have an imbalance in a month and an adjustment is made, then all of them should have the window adjusted to 7% or 9% or whatever value is compatible with the flexibility the LDC has for that period. This makes sure that the flexibility is shared among all customers needing it, and not focused on just some selected customers.

6. Balancing penalties should explicitly in the tariff be credited to the gas bank.

While it is generally understood that the penalties for balancing benefit the gas bank and not the LDC, it would be useful for customers to see that explicitly in the tariff language so it is unambiguous that these fees are not a source of margin for the LDC, but are imposed to improve the system operation. Statements of how collected revenues are to be accounted for are done elsewhere in the tariff, for example in the CGS rate.

Exhibit 1

Section 20.11 Resolution of Imbalances

El Paso Tariff

Downloaded from El Paso Website (www.elpaso.com)

<!--StartFragment-->20.11 Resolution of Imbalances

For purposes of this Section 20.11 "Shipper" shall include any party utilizing El Paso's system and services including, without limitation, any party tendering or receiving gas under Shipper's contract but excluding any operator of interconnecting facilities and any volume subject to a written assistance agreement with El Paso. El Paso and the operator of any interconnecting facilities may cash-out imbalances, pursuant to a written agreement between them.

(a) Imbalances Prior to Effective Date of this Provision - Imbalances existing prior to the effective date of this provision will be corrected in kind, as described below, unless El Paso and Shipper agree to correct such imbalances in cash. El Paso and Shipper shall attempt, in good faith, to agree upon the historical imbalance and the time period to correct such historical imbalance. If, despite such good faith efforts, El Paso and Shipper fail to reach written agreement upon the appropriate corrective action within six (6) months from the effectiveness of this section, then Shipper shall be required to correct any remaining imbalance within sixty (60) days, subject to operational constraints on El Paso's system. El Paso shall extend the sixty (60) day balancing period by one (1) day for each day that El Paso is unable to receive or deliver scheduled imbalance gas due to operational constraints on El Paso's system. If after the sixty (60) day balancing period or extension due to operational constraints Shipper has not corrected the imbalance, then El Paso shall (i) for any remaining imbalances where deliveries exceed receipts ("negative imbalance") charge Shipper per dth based upon the arithmetic average of the System Weighted Index Price for each quarter of the twelve (12) months ending December 31, 1992 (the System Weighted Index Price for each quarter shall be based on the method set forth in Section 20.11(e)(i) below); or (ii) for any remaining imbalances where receipts exceed deliveries ("positive imbalance") retain the imbalance at no cost and free and clear of any adverse claims by any party or any obligation to account for such gas; provided however, that in the event of a bona fide dispute by Shipper of

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Issued by: A. W. Clark, Vice President
Issued on: May 23, 1994 Effective on: July 1, 1994

El Paso Natural Gas Company
FERC Gas Tariff Original Sheet No. 277
Second Revised Volume No. 1A

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

20. OPERATING PROVISIONS FOR FIRM TRANSPORTATION SERVICE (Continued)

20.11 Resolution of Imbalances (Continued) the amount of the imbalance, El Paso shall not take the action outlined above when Shipper acts in a timely manner to provide additional information and security for El Paso in accordance with the following procedures.

(i) Identify Dispute: Within fifteen (15) days after El Paso's notification of an imbalance, Shipper shall notify El Paso by written correspondence of the imbalance that is in bona fide dispute and of all reasons and documentation why Shipper believes El Paso's calculation of the imbalance is not correct; and

(ii) Payment Security: Within thirty (30) days after El Paso's notification of an imbalance, Shipper shall either agree to the imbalance calculated by El Paso without prejudice to Shipper's rights to dispute all or part of said imbalance and subject to return of the disputed imbalance so identified after resolution of that dispute or Shipper shall take the necessary actions to correct the imbalances it concedes to be correct and furnish good and sufficient surety bond, guaranteeing the correction of any imbalance ultimately found owed to El Paso after resolution of the dispute, including late payment charges which accrue until resolution of the dispute with respect to any negative imbalances, which resolution may be reached either by agreement or judgment of a court of competent jurisdiction. If resolution of the dispute is in favor of Shipper and the Shipper furnished a surety bond then El Paso shall pay to Shipper the costs incurred in securing that surety bond for this dispute including any late payment charges actually paid to El Paso.

(b) Calculation of an Imbalance Subsequent to the Effectiveness of this Provision - El Paso and Shippers shall resolve an over-delivery or under-delivery of gas to El Paso each month

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Issued by: A. W. Clark, Vice President
Issued on: May 23, 1994 Effective on: July 1, 1994

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TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

20. OPERATING PROVISIONS FOR FIRM TRANSPORTATION SERVICE (Continued)

20.11 Resolution of Imbalances (Continued)

in accordance with this Section 20.11. Each month, El Paso will calculate a percentage imbalance for each individual contract for each Shipper by dividing the total cumulative imbalance quantities in excess of 1,000 dth, attributable to the imbalance amount for such contract (numerator) by Shipper's Transportation Contract Demand multiplied by 30 days (denominator) or, with respect to those Shippers with an executed Rate Schedule FT-2 Transportation Service Agreement which requires the delivery by El Paso of "Full Requirements," the average non-coincidental three (3) day peak over the most recent five (5) year period multiplied by 30 days (denominator). The result of such calculation will be included on El Paso's imbalance statement to Shipper, or its designee, and shall serve as notification to the Shipper of an imbalance. If an imbalance is equal to or greater than +/-5%, the Shipper is provided additional notice on said statement that if such imbalance continues and becomes equal to or greater than +/-10%, the Shipper is subject to cash-out of the imbalance pursuant to this Section 20.11; provided, however, that in no event shall cash-out be assessed when the amount of the imbalance does not exceed 1,000 dth, unless the parties mutually agree otherwise; provided, further, if a verifiable imbalance is caused by El Paso, that portion of the imbalance shall not be considered as part of Shipper's imbalance for purposes of initiating cash-out. In addition, cash-out of imbalances will not be mandatory if the parties have reached written agreement on the resolution of the imbalance provided such agreement is final prior to the triggering of cash-out as specified in Section 20.11(c) below. Written agreements may consist of, but are not limited to the following provisions (i) offsetting of imbalances; (ii) extension of a payback period within a set time period; and (iii) negotiated price other than the cash-out prices reflected herein.

(c) Triggering of Cash-Out - Except for those contracts without activity for a period of six (6) months, as discussed in Section 20.11(d), any cumulative imbalance at the end of any month that is within a tolerance level less than +/-5% shall

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TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

20. OPERATING PROVISIONS FOR FIRM TRANSPORTATION SERVICE (Continued)

20.11 Resolution of Imbalances (Continued)

not be subject to this Section 20.11 during such month. Such imbalance shall be forwarded to the next month's imbalance calculation. If the cumulative imbalance for any month is equal to or greater than +/-5%, El Paso shall notify Shipper, as indicated in Section 20.11(b), that it is approaching a cash-out situation for an imbalance equal to or in excess of +/-10%. For any month that a cumulative imbalance is equal to or in excess of +/-10%, cash-out of the imbalance will take place provided Shipper has received a minimum of two (2) consecutive monthly notices (minimum of 45 days from date of first notice) alerting Shipper to an imbalance equal to or in excess of +/-5%. El Paso shall extend the 45-day grace period by one (1) day for each day that El Paso is unable to receive or deliver requested and confirmed imbalance gas for a given contract due to operational constraints on El Paso's system. If the parties have not reached written agreement otherwise, the imbalance will be reduced to +/-5% by "cash-out" the month following the last notice, at the dollar value calculated with the cumulative imbalance and an established monthly price, referred to herein as the Index Price, as determined in Section 20.11(e) below. The Index Price shall be calculated as of the month the imbalance first equals or exceeds the +/-10% level.

(d) Six-Month Resolution of Inactive Contracts - El Paso will notify Shipper after three (3) consecutive months of inactivity that at the end of any six (6) month period that a contract between Shipper and El Paso has been inactive and has maintained an imbalance of less than +/-10%, for which no cash-out was applicable and before the next invoice and balance statement date, such imbalance shall be reduced to zero (0) by cash-out utilizing the Index Price for the month after the end of six (6) month period reflected in Section 20.11(e).

(e) Index Prices and Cash Out

(i) Cash-out shall be based on one of four calculated price indices, depending on whether Shipper has one

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Issued by: A. W. Clark, Vice President
Issued on: May 23, 1994 Effective on: July 1, 1994

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El Paso Natural Gas Company
FERC Gas Tariff
Second Revised Volume No. 1A

Second Revised Sheet No. 280
Superseding
First Revised Sheet No. 280

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

20. OPERATING PROVISIONS FOR FIRM TRANSPORTATION SERVICE (Continued)

20.11 Resolution of Imbalances (Continued)

or more of the three supply basins (i.e., San Juan, Permian or Anadarko Basins) included in its agreement. A single price index calculated only for a specific supply basin will be used if Shipper has only that one supply basin in its agreement. A System Weighted Index Price calculated for all supply basins will be used if Shipper has more than one supply basin in its agreement. The calculation of each price index is set forth below:

(1) The Anadarko Basin Index Price shall be computed using a simple average of reported prices as delivered to El Paso's Mainline System at Washita, Anadarko, Oklahoma, or the Texas Panhandle from the publications identified in Section 20.11(e)(ii), or if prices are not reported for these areas, El Paso shall use the Permian Basin Index Price calculated below;

(2) The Permian Basin Index Price shall be computed using a simple average of reported prices as delivered to El Paso's Mainline System at West Texas, Permian or Waha from the publications identified in Section 20.11(e)(ii); and

(3) The San Juan Basin Index Price shall be computed using a simple average of reported prices as delivered to El Paso's Mainline System at Ignacio, San Juan or New Mexico from the publications identified in Section 20.11(e)(ii).

(4) The System Weighted Index Price shall be computed monthly by using the weighted average of the Anadarko Basin Index Price, the Permian Basin Index Price, and the San Juan Basin Index Price. The weighting is based on the volumes entering El Paso's system in each basin during the previous quarter and will be updated quarterly.

(ii) The three trade publications referenced above are:

Issued by: Catherine E. Palazzari, Vice President
Issued on: September 5, 2002 Effective on: November 1, 2002

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El Paso Natural Gas Company
FERC Gas Tariff
Second Revised Volume No. 1A

First Revised Sheet No. 281
Superseding
Original Sheet No. 281

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

20. OPERATING PROVISIONS FOR FIRM TRANSPORTATION SERVICE (Continued)

20.11 Resolution of Imbalances (Continued)

Natural Gas Week (Spot Prices on Interstate Pipeline Systems - Part 1, Delivered-to-Pipeline), Platt's Gas Daily Price Guide (Monthly Regional Price Sampler), and Natural Gas Intelligence Bidweek Survey - Spot Gas Prices.

In the event any of the publications cease publication or to the extent a publication fails to report spot prices, then El Paso shall reserve the right to substitute prices reported in a similar independent publication or continue the pricing formula using the average of the remaining publications. Changes in the name, format or other method of reporting by the publications in (e) above that do not materially affect the content shall not affect their use hereunder.

(iii) El Paso shall post the Index Price monthly on its electronic bulletin board on or before the 15th day of each month applicable to the prior business month.

(iv) For any contract where total deliveries by El Paso for a Shipper exceed the total receipts from Shipper, after appropriate reductions, such imbalance shall be "cashed out" based on the percentages provided below. Further, the Index Price shall be adjusted to reflect the point at which the imbalance is held.

(1) For any contract subject to Section 20.11(d), or by mutual agreement any contract with an imbalance up to and including +5%, the quantity will be invoiced at 100% of the Index Price;

(2) For any contract subject to Section 20.12(d) or any contract with an imbalance greater than +5% but less than or equal to +10%, the quantity in excess of +5% will be invoiced at 110% of the Index Price;

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

20. OPERATING PROVISIONS FOR FIRM TRANSPORTATION SERVICE (Continued)

20.11 Resolution of Imbalances (Continued)

(3) For any contract with an imbalance greater than +10% but less than or equal to +15%, the volume in excess of +10% will be invoiced at 120% of the Index Price;

(4) For any contract with an imbalance greater than +15% but less than or equal to +20%, the volume in excess of +15% will be invoiced at 130% of the Index Price; and

(5) For any contract with an imbalance greater than +20%, the volume in excess of +20% will be invoiced at 140% of the Index Price.

(v) For any contract where total receipts by El Paso from a Shipper, after appropriate reductions, exceed total deliveries for that Shipper, such imbalance shall be "cashed out" based on the percentages provided below. Further, the Index Price shall be adjusted to reflect the point at which the imbalance is held.

(1) For any contract subject to Section 20.11(d) or subject to any other mutually agreeable terms, with an imbalance up to and including -5%, the quantity will be purchased by El Paso at 100% of the Index Price;

(2) For any contract subject to Section 20.11(d) or any contract with an imbalance greater than -5% but less than or equal to -10%, the quantity in excess of -5% will be purchased by El Paso at 90% of the Index Price;

(3) For any contract with an imbalance greater than -10% but less than or equal to -15%, the volume in excess of -10% will be purchased by El Paso at 80% of the Index Price;

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

20. OPERATING PROVISIONS FOR FIRM TRANSPORTATION SERVICE (Continued)

20.11 Resolution of Imbalances (Continued)

(4) For any contract with an imbalance greater than -15% but less than or equal to -20%, the volume in excess of -15% will be purchased by El Paso at 70% of the Index Price; and

(5) For any contract with an imbalance greater than -20%, the volume in excess of -20% will be purchased by El Paso at 60% of the Index Price.

(vi) At the time a Shipper is in a cash-out position requiring payment to El Paso at the appropriate rate set forth in Section 20.11(e)(iv) above and such Shipper also has an Unauthorized Gas balance, as such term is defined in Section 27.1 of these General Terms and Conditions, such Unauthorized Gas balance may be offset against the quantities due

El Paso within the same production basin and adjusted to reflect the point at which the imbalance is held. At the time of invoicing for the net imbalance, El Paso shall appropriately invoice or account for any production area charges and liquid credits applicable to the unauthorized gas used as an offset. This provision is not applicable to the Unauthorized Gas retained as a penalty pursuant to Section 27 of these General Terms and Conditions.

Prior to any offsets, El Paso at its option may first offset any under or over-deliveries between contracts with such Shipper.

Shipper or its suppliers shall be responsible for reporting and payment of any royalty, tax, or other burdens on natural gas volumes received by El Paso and El Paso shall not be obligated to account for or pay such burdens.

(f) Crediting of Revenues - When the aggregate value received from all sources resulting from cash-out exceeds the cost of gas plus administrative fees, El Paso shall credit such net amount within 90 days of the payment date to Shippers on a

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FERC Gas Tariff Substitute Second Revised Sheet No. 284
Second Revised Volume No. 1A Superseding
First Revised Sheet No. 284

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

20. OPERATING PROVISIONS FOR FIRM TRANSPORTATION SERVICE (Continued)

20.11 Resolution of Imbalances (Continued)

pro rata basis in accordance with the volumes transported for each Shipper.

(g) Netting of Contracts - Netting of imbalances is defined as the combination of positive and negative contract imbalances for a Shipper. El Paso shall permit Shippers and their agents to offset imbalances accruing on different contracts held by the Shipper.

(h) Trading of Imbalances - Trading is the offsetting of Shipper imbalances between contracts belonging to different Shippers. El Paso shall permit Shippers and their agents to trade imbalances with other Shippers among their transportation service agreements. Trading will always have the effect of reducing Shipper's contract imbalances. El Paso shall facilitate the trading process with Shippers on its system by:

(i) Providing Shippers the ability to post their contract imbalances on the EBB;

(ii) Providing Shippers the ability to view on the EBB and, upon request, download posted imbalances;

(iii) Receiving the trade request and confirmation from Shippers; and

(iv) Reflecting the trade on the next Shipper imbalance statement.

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